MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

DII5014 INTRODUCTION TO INVESTMENT

(All Sections/Groups)

15 FEBRUARY 2023
9.00 AM – 11.00 AM
(2 hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 6 pages with 2 sections.
2. Attempt **ALL** questions in Section A and Section B.
3. Please write all your answers for Section A on the OMR form provided and all answers for Section B in the Answer Booklet provided.
4. The formulae are given in the appendices.

SECTION A: MULTIPLE CHOICE QUESTIONS [20 Marks]

1. Which of the following is an investment as defined in the text.
   A. An apartment insurance.
   B. A Malaysia savings bonds.
   C. A new Perodua Bezza
   D. Current liability

2. Rahman who will be 60 years this year is planning to retire from his job. If he wants to invest, what type of investment is suitable for him?
   A. Common stocks.
   B. Convertible stocks.
   C. Mutual funds.
   D. Options.

3. Which one of the following has the lowest level of risk?
   A. Commercial paper.
   B. Money market mutual fund account.
   C. Banker's acceptance.
   D. Malaysia Treasury bill.

4. Jason purchase 150 shares of MMY stock at a price of RM3.50 a share. He utilized 60% margin account to make the purchase. How much does Jason need to borrow in order to make his investment?
   A. RM110
   B. RM210
   C. RM315
   D. RM525

5. Lina wants to buy long-term securities such as bonds. Which of the following type of market is suitable for her?
   A. Capital market.
   B. Stock market.
   C. Money market.
   D. Third market.

6. Below are relevant information for speculative stocks, **EXCEPT** for:
   A. Companies lack sustained track record of business and financial success.
   B. Earnings may be uncertain or highly unstable.
   C. Potential for substantial current income.
   D. Stock price subject to wide swings up and down in value.

7. Below are risks associated with stocks, **EXCEPT**:
   A. Business risk
   B. Financial risk
   C. Tax risk
   D. Purchasing power risk

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8. Muskan Berhad declares a 5-for-2 stock split. The stock currently sells for RM3 a share. A shareholder who owned 100 shares of stock prior to the split will now own:
   A. 40 shares valued at about RM7.50 a share.
   B. 40 shares valued at about RM1.20 a share.
   C. 250 shares valued at about RM7.50 a share.
   D. 250 shares valued at about RM1.20 a share.

9. The Handy Company has 4 million shares of stock outstanding. The stock has a par value of RM0.10 per share and is currently trading at RM18 per share. According to this information, the market capitalization of Handy is:
   A. RM400,000.
   B. RM7.2 million.
   C. RM40 million.
   D. RM72 million.

10. Since each share of common stock represents ownership in a company, shares of common stock are often referred to as _____.
   A. illiquid investments
   B. equity securities
   C. fixed-income securities
   D. unit-cost securities

11. This type of risk is based on the financial integrity of a bond issuer.
   A. Liquidity risk.
   B. Call risk.
   C. Business risk.
   D. Interest rate risk.

12. When a company issues a single bond with multiple maturity dates, this is called as _____.
   A. callable bond
   B. premium bond
   C. serial bond
   D. term bond

13. In general, foreign-pay bonds provide _____ rates of return and _____ diversification effects for Malaysian investors.
   A. non-competitive; positive
   B. competitive; positive
   C. non-competitive; negative
   D. competitive; negative

14. This variable has the greatest effect on bond prices.
   A. Economic growth
   B. Interest rates
   C. Inflation
   D. Stock market returns

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15. Below are examples of Secured debt, **EXCEPT** for:
    A. Debenture.
    B. Senior bonds.
    C. Collateral trust bonds.
    D. Equipment trusts certificates.

16. In the foreign exchange market, investors have three options to make direct investments in foreign companies, as below, **EXCEPT** for:
    A. purchase securities on foreign exchanges.
    B. purchase other country's currency.
    C. buy securities of foreign companies that trade on U.S. exchanges.
    D. buy American Depositary Shares (ADSs).

17. _____operate and regulate a fully integrated exchange offering a comprehensive range of exchange-related facilities including listing, trading, clearing, settlement and depository services.
    A. Securities Commissions
    B. Bursa Malaysia
    C. Bank Negara Malaysia
    D. Employees Provident Fund

18. The quantity of Malaysian currency (MYR) that traders demand in the foreign exchange market during a given period depends on below factors, **EXCEPT:**
    A. The exchange rate between the two countries.
    B. Interest rates in Malaysia and other countries.
    C. The expected future exchange rate.
    D. World demand for imports.

19. An increase in U.S. imports from Switzerland increases the _____ for U.S. dollars and increases the _____ of Swiss francs.
    A. demand; supply
    B. demand; demand
    C. supply; demand
    D. supply; supply

20. More Indonesian companies start to invest in Malaysia. This will lead to a(n) _____.
    A. decrease in the demand for ringgit and an increase in the demand for rupiah
    B. increase in the supply of ringgit and a decrease in the demand for rupiah
    C. increase in the demand for ringgit and a decrease in the supply of rupiah
    D. increase in the demand for ringgit and an increase in the supply of rupiah

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SECTION B: STRUCTURED QUESTIONS (80 Marks)

QUESTION 1

(a) Given below information.

	Investment Vehicle	
Cash received (RM)	**DFD**	**SFS**
1st quarter	0.15	0.20
2nd quarter	0.20	0.40
3rd quarter	0.30	0.25
4th quarter	0.25	0.10

If DFD and SFS are currently trading at RM3.06 and RM3.30 now and you are expected to sell the stocks after one year at RM3.30 and 3.80 respectively.

(i) Calculate the holding period return (HPR) for above investments. (9 marks)

(ii) Decide which stock provides you the best option and justify. (1 mark)

(b) Martin purchased common stocks from two company, FunTim Bhd and BFarm Bhd, for RM5,500 and RM6,000 respectively. FunTim Bhd pays dividends of RM300 every four months meanwhile the BFarm pays dividends of RM420 per quarter. Martin sell the FunTim shares for RM5,800 and BFarm for RM7,000 after 12 months. Compute the Holding Period Return for both companies. (10 marks)

(Total: 20 marks)

QUESTION 2

	Expected Return (%)	
Year	**Stock KTK**	**Stock PGP**
2019	10	11
2020	12.5	9
2021	13	11.5

Data above is the historical data of expected return for both companies. Zharif is currently analysing his portfolios performance for the past three years, which is a combination of Stock KTK and Stock PGP. Based on the data given above, kindly provide Zharif the answers for the following questions:

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(a) The expected portfolio returns for each of the given year, where KTK represents 55% while PGP is 45% of the portfolio mix. (9 marks)
(b) The average expected portfolio returns over the period. (4 marks)
(c) The standard deviation of the expected portfolio return. (6.5 marks)
(d) Based on your answer in **(c)**, determine whether this is a low or high-risk portfolio. (0.5 mark)

(Total: 20 marks)

QUESTION 3

Followings are the extracted financial information on TinyThumb Bhd. You are required to compute the following ratios based on the extracted information provided.

Net profit after taxes	RM150,000
Total sales	RM250,000
Number of common stock outstanding	25,000 units
Total common stock dividend paid	RM47,500
Total assets	RM180,000
Total stockholders' equity	RM380,000
Market price of common stock	RM22.00 per share

(a) Earnings per share (EPS). (2 marks)
(b) P/E (Price earnings) ratio. (2 marks)
(c) Net profit margin. (2 marks)
(d) Book value per share (2 marks)
(e) Price-to-book-value ratio. (2 marks)
(f) Dividend pay-out. (3 marks)
(g) Dividend yield. (3 marks)
(h) Total assets turnover. (2 marks)
(i) Return on assets (ROA). (2 marks)

(Total: 20 marks)

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QUESTION 4

Bond	Bond Price (RM)	Coupon rate (%)	Years to Maturity	Years to Call	Call Price
A	1,300	10	20	15	1,000
B	1,550	13	25	20	1,200

For each of the bond above, providing the par value is RM1,000 for each bond, and assuming that both bonds are compounded annually, compute:

(a) YTM (Yield to Maturity) (10 marks)
(b) YTC (Yield to Call) (10 marks)

(Total: 20 marks)

End of Paper

32. Conversion value = Conversion ratio x Current market price of the stock

33. $$\text{Conversion equivalent} = \frac{\text{Current market price of the convertible bond}}{\text{Conversion ratio}}$$

34. Conversion premium (in RM)

= Current market price of the convertible bond – Conversion value

35. $$\text{Conversion premium (in \%)} = \frac{\text{Conversion premium (in RM)}}{\text{Conversion value}}$$

36. Payback period =

$$\frac{\text{Conversion premium (in RM)}}{\text{Annual interest income from the convertible bond—Annual dividend income from the underlying common stock}}$$

37. $$\text{Current yield} = \frac{\text{Annual interest income}}{\text{Current market price of the bond}}$$

38. $$\text{Yield to maturity} = \frac{\text{Annual interest} + \frac{\text{Par value} - \text{Market price}}{\text{Number of years to maturity}}}{\frac{\text{Par value} + \text{market price}}{2}}$$

39. $$\text{Yield to call} = \frac{\text{Annual interest} + \frac{\text{Call price} - \text{Market price}}{\text{Number of years to call}}}{\frac{\text{Call price} + \text{market price}}{2}}$$